

EXECUTIVE SECRETARIAT

Routing Slip

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| SUSPENSE | | Date | | | |

Remarks:

Executive Secretary
 9/9/83
 Date



Washington, D.C. 20520

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September 8, 1983

Interagency Group No. 39

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| Executive Registry |
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TO: OVP - Mr. Donald Gregg
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USIA - Ms. Teresa Collins
USTR - Mr. Dennis Whitfield

SUBJECT: President's Trip to East Asia

In preparation for the September 12 Interagency Group meeting, attached is a complete set of the final ASEAN economic issues papers and a new paper, "Indonesia: Meranti Plywood."

William H. Brown
Assistant Secretary, Acting
Bureau of East Asian and
Pacific Affairs



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LIST OF ASEAN ECONOMIC ISSUES PAPERS

1. ASEAN Economic, Science & Technology Cooperation Projects
(New Title, Revised)
2. Caribbean Basin Initiative
(Revised)
3. Commodities
(Revised)
4. Common Fund
(Revised)
5. Copyright
6. Export-Import Bank Lending
(Revised)
7. Free Trade Area
8. GSP
9. Other Cooperative Projects
10. Private American Investment
(Revised)
11. Small Business Improvement Project; Technology Institute
(New Title, Revised)
12. Textiles
(Revised)
13. Trade Issues
(Revised)

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ASEAN ECONOMIC, SCIENCE & TECHNOLOGY COOPERATION PROJECTS

ISSUE

To re-emphasize to the ASEAN countries that the U.S. understands the region's increasing requirement for new U.S. technology and techniques to accelerate economic, agricultural and scientific development as these nations seek rapidly to modernize.

Where Do We Stand:

The USG through USAID, Department of Commerce, USGS and other agencies already have a number of useful cooperative activities with ASEAN countries in these fields. Underway are excellent programs in alternative sources of energy, plant quarantine training, agricultural research, watershed management, remote sensing, etc. New activities in ASEAN are in various stages of consideration within the USG. These are:

- marine science and remote sensing (Commerce/NOAA);
- quality control for food and natural commodity exports, such as fish, shrimp, spices, coffee, rice, etc. (FDA);
- food storage and processing technology (AID/USDA);
- toxic waste disposal (EPA);
- support to the Southeast Asian Tin Research and Development Center (SEATRAD)(USGS)
- pollution control technology (EPA, NAS); and
- participation in the ASEAN Science and Technology week in Singapore in 1984.

Where Do We Want To End Up:

(A) To accelerate planning for a number of new programs and activities so that some are ready for announcement during the visit to Jakarta. A Science and Technology Working Group has been organized under OES leadership to propose and review projects in this area.

(B) To prepare a compendium of existing cooperative US agency programs with one or more of the five ASEAN nations.

Steps to Take:

To secure funding in the area of \$1.5 - 2 million for the above listed activities so that technical agencies may proceed with active preparation for their implementation. (Preliminary project proposals are available.)

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Presidential Involvement:

The visit to ASEAN should offer the occasion for the President to re-emphasize our strong commitment to increasing cooperation with ASEAN in a wide variety of technical, scientific and other economic fields. The several addresses by the President should include both general and some specific commitments to new cooperative activities.

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ASEAN Economic, Science & Technology Projects

Drafted: EA/EP:ECesky: ^{CA}srp
Revised 9/07/83:x4835:1821R

Clearances: EA:AAlbrecht ^{CA}
EA:JMonjoc ^{CA}
AID/ASIA/ISPA:LKuhn ^{CA}
OES/SCT:MWygant ^{CA}

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CARIBBEAN BASIN INITIATIVE (CBI)

ISSUE

The Caribbean Basin Initiative (CBI) legislation has now become law and the ASEAN governments remain concerned that it will adversely affect trade and investment with the U.S.

Where Do We Stand:

The "one-way free trade zone" element of the CBI is expected to come into effect in early 1984, offering Caribbean nations duty free entry into the U.S. for most products. The ASEAN nations have frequently been reassured that the small and weak economies in the Caribbean are unlikely to pose serious competition in either trade or investment with the dynamic ASEAN nations during the 12 year life of CBI. Special concern has been expressed by the Philippines and Thailand over CBI preferences on sugar.

Where Do We Want To End Up:

To continue reassurances that CBI is not a significant threat to ASEAN economic interests.

Steps To Take:

To describe more precisely, to the extent possible by November, development of the CBI preference system in the Caribbean region.

To be able to respond to inquiry on preferences for ASEAN similar to those offered to the CBI countries. This question might be raised during the President's trip.

Presidential Involvement:

As there is some likelihood that ASEAN leaders may bring up their concerns about the CBI, the President should be prepared to stress the strategic importance of stability in the Caribbean region, emphasizing the limited economic impact on the rest of the world including ASEAN.

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ASEAN Issues for IG: CBI

EA/EP:EJChesky:dr

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Clearances:EA:ACAlbrecht

EA:JMonjo

ARA/ECP:JCurry

EB/GCP:MBarrera

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COMMODITIES

ISSUE

The ASEAN countries believe that the U.S. is insensitive to their interests on commodity issues vital to them.

Where Do We Stand:

On the most important issue of contention, GSA disposals of surplus tin, the U.S. and ASEAN are currently reviewing a draft Memorandum of Understanding (MOU) which would be the basis of U.S.-ASEAN consultations on GSA tin disposals. Regarding agricultural commodities, the Thais have protested frequently and at high levels that the U.S. blended credit program (BCP) harms their agricultural export markets. (See separate Thai issue paper.) Existing funds for the BCP have been used up, but this continues to be an important issue for the Thais and others. Some ASEAN countries are important BCP recipients. Rubber has been a contentious issue in the past, though it is largely quiescent at present. ASEAN countries would also like to see a more forthcoming U.S. position on international commodity agreements and participation in the Common Fund.

Where Do We Want To End Up:

With policies and procedures which, while preserving U.S. interests, minimize the friction on commodity issues.

Steps To Take:

Conclude the MOU on GSA tin disposals and begin consultations with ASEAN on the issue. Implement the planned purchase of 10,000 tons of natural rubber for the GSA stockpile. If additional money for the BCP is approved, ensure that in implementing the program the interests of third-country, non-subsidized suppliers are taken into account in the interagency decision process as well as through adequate consultation where appropriate.

Presidential Involvement:

The centerpiece will be the U.S.-ASEAN consultations on GSA tin disposals which should be well launched by November. The President should highlight this accomplishment. On general U.S. commodity policies, he can note that the IMF, including the CFF, is the principal means for assisting countries with balance of payments difficulties. With respect to other specific commodity issues the ASEAN countries may raise, he should be prepared to respond appropriately.

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ASEAN Issues for IG: Commodities

EA/EP:LMoriarty:dr

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Clearances:EA:ACAlbrecht^{fm}
EA:JMonjo
EA/EP:EJChesky^{fm}
EA/IMBS:ALaPorta^{fm}
EA/PHL:RVDickey^{fm}
EA/T:FMeade^{fm}
EB/ISM:JO'Mahony^{fm}
EB/OFPP/FPD:SThompson^{fm}
TREASURY:RAnderson(phone)^{fm}

COMMON FUND

ISSUE

How to respond to ASEAN questioning and criticism of our position on the Common Fund.

Where Do We Stand:

The U.S. signed the Common Fund agreement in November 1980. We have stated that we will consider submitting the treaty to the Senate for ratification only after a sufficient number of international commodity agreements are committed to association with the Fund. The Executive Secretaries of the International Natural Rubber Agreement and the International Tin Agreement have indicated that they will place the issue of association with the Common Fund on the agenda of future council meetings for their consideration.

Members of Group B, led by Japan and France, have actively urged us to reconsider our position. All of the ASEAN members have signed; Indonesia and the Philippines have ratified, and Malaysia has announced its intention to ratify. As of June, 108 countries have signed, and 53 (including 10 OECD members) have ratified.

The conditions to be met before the Common Fund enters into force is that 90 countries must ratify and that their combined contributions to the first account must represent two-thirds of the required level of \$470 million. The agreement can come into effect with 90 ratifications only if the US or the USSR are among the ninety and the Soviets have shown no indication that they will sign or ratify. However, the agreement could be renegotiated by interested states to permit it to come into effect with fewer ratifications.

Where Do We Want To End Up:

With a position on the Common Fund that reflects our own views on commodity policy, but which to the extent possible, mutes overt criticism from our friends and allies during the President's trip.

Steps To Take:

Continue to explain our preference for increased market orientation of commodity markets. Note as well that the IMF Compensatory Financing Facility (CFF) already helps offset temporary export short-falls due to decreased commodity earnings. Also note our support for existing commodity agreements with market-oriented principles. Carefully monitor progress on Common Fund ratification, developments in commodity markets, and the mood in Congress, and be willing, should it become necessary, to review the talking points before the President's trip.

Presidential Involvement:

The President can expect questions on this issue during his visits to Jakarta, Manila and possibly Japan as well. He should be prepared to respond appropriately.

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DECL:OADR

ASEAN Issues for the IG: Common Fund

EA/EP:LMoriarty:dr^{dm}
Revised 9/08/83:x4835:0426A

Clearances: EA:ACAlbrecht^{SN}
EA:JMonjo
EA/EP:ECesky^{SN}
EA/EP:LMoriarty^{SN}
EA/J:JCroddy^{SN}
EA/IMBS:AlaPorta(subs)^{SN}
EA/T:GWolfe(subs)^{SN}
EA/PHL:RVDickey(subs)^{SN}
EB/ICD:JO'Mahony^{SN}
E:MBailey^{SN}
TREASURY:Randerson(subs)^{SN}

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COPYRIGHT

ISSUE

Encouraging the protection of U.S. business and cultural interests through modernization of the Copyright laws in the ASEAN region.

Where do we stand:

The U.S. recording and book publishing industries have had a longstanding problem of piratical copying of phonograph records, tapes and books in all countries in the ASEAN region. The most serious problems are in Singapore. Moreover, in all countries the legal structure and local enforcement attitudes are inadequate to protect U.S. copyright holders. As a result legitimate trade in U.S.-origin records and books has virtually ceased to exist in some ASEAN countries. A long term, albeit low key, effort to persuade the governments of the region to improve their levels of copyright protection has had marginal success. Recently copyright and other intellectual property problems have received Congressional attention. In the Caribbean Basin Initiative (CBI) bill, for instance, a provision was added by the Congress to limit eligibility for CBI benefits of countries where such problems exist.

Where do we want to end up:

With the consciousness of the ASEAN governments raised to the fact that the U.S.G. regards the piracy of copyrighted works as a problem to be dealt with before it results in serious damage.

Steps to take:

Consider whether to use the Presidential visit to supplement ongoing efforts of the USG to obtain improvements in the copyright systems of the ASEAN countries by directing high level attention to the problems and their potential for inciting congressional retaliation in unrelated areas such as GSP renewal legislation.

Presidential Involvement:

As appropriate in Cabinet-level discussions, mention the need for improvement in the copyright laws of the ASEAN countries and point out that inaction may provoke retaliatory action in congress.

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Clearances:EA:ACAlbrecht *CA*
EA:JMonjo *JM*
EA/EP:LMoriarty *LM*
EB/BP:HJWinter *HJ*
EA/IMBS:ALaPorta *AL*
EA/PHL:RDickey *RD*
EA/T:GWolfe *GW*
EA/EP:ECesky *EC*
EB/OT/GCP:MBarreza *MB*

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EXPORT-IMPORT BANK LENDING TO ASEAN COUNTRIES

ISSUE

Export-Import Bank financing of U.S. exports to ASEAN countries.

Where do we stand:

Eximbank is open to lending in all five ASEAN countries and is actively soliciting new business in the region. Since 1975 Eximbank exposure in ASEAN has more than doubled from \$1.1 to \$2.5 billion. current exposure (as of 7/31/83, in US\$ millions) is:

| | |
|-----------------|-------------|
| Philippines | 1,228.6 |
| Indonesia | 804.1 |
| Singapore | 204.5 |
| Thailand | 205.2 |
| <u>Malaysia</u> | <u>92.8</u> |
| TOTAL | 2,535.2 |

Eximbank has preliminary commitments on a wide variety of projects in all five countries. These range in size from a \$30 million vocational training project (Indonesia) to a \$2.5 billion subway project (Singapore). Eximbank also has advance notice of other projects significant to American firms (e.g. a \$2 billion telecommunications project in the Philippines). While not all Eximbank programs are as competitive as allowed, all loan rates are at OECD allowed minimums.

Where we want to be:

With increased sales for American firms.

Steps to take:

Flag those projects with special problems and ascertain if movement can be stimulated by the President's visit.

Presidential Involvement:

The President should strongly state that American firms are interested in business in ASEAN countries, and that Eximbank will vigorously support their efforts to be competitive.

The President can note Eximbank's level of preliminary commitment to ASEAN countries (\$3.1 billion outstanding or pending), citing this as evidence of our desire not only to strengthen economic ties but also to encourage the American private sector to participate in the development of ASEAN countries through increased capital and technology flows.

Where sufficient progress has been made on specific projects, the President may wish to announce new Eximbank financing.

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ASEAN Issues for IG: Eximbank Lending to ASEAN Countries

Drafted: EA/EP:BDPorter ✓
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9/08/83

Cleared: EA - Mr. Albrecht ✓
EA - Mr. Monjo ✓
EA/EP:ECesky ✓
EA/IMBS:ALaPorta ✓
EA/PHL:VDicken ✓
EA/T:GWolfe ✓
EB/IFD/ODA:FParkor ✓
Eximbank:HTurn ✓
Comm:LDrucker ✓

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ASEAN FREE TRADE AREA

ISSUE:

USTR Brock's proposal for a two-way U.S.-ASEAN Free Trade Area.

Where Do We Stand:

In his February speech on "U.S.-ASEAN Trade Challenges for the Decade," delivered at International Herald Tribune Conference in Singapore, USTR Brock proposed that we "explore the phased elimination of all barriers to trade between the United States and ASEAN." Dynamic trade patterns, particularly with the U.S., and rapid growth in GNP, as well as our political and strategic ties to ASEAN, suggest that ASEAN could be a good choice for a Free Trade Area (FTA) agreement with the U.S. Under a US-ASEAN FTA, which could involve reciprocal reduction of tariff and non-tariff barriers, we would expect bilateral trade to increase. Given the disparity between average ASEAN and U.S. tariffs, it is likely that U.S. exporters would gain considerably from the trade barriers that the ASEAN countries would have to reduce. The US could also gain from liberalized trade in services, banking, and investment in ASEAN countries. Because we would have little to offer in the way of tariff reductions, we might have to make some concessions on our quantitative restrictions on textiles or sugar, for example, in order to entice the ASEAN countries to join. In addition, the ASEAN countries are making only slow progress in liberalizing trade among themselves. There has thus far been little response from ASEAN to Brock's February proposal. On the U.S. side, no immediate Congressional action would be required but eventually legislation would have to originate in the House and would require a major lobbying effort.

Where Do We Want To End Up:

With greater ASEAN interest in long-term trade liberalization.

Steps To Take:

Decide how to use the Presidential visit to generate ASEAN interest in greater trade liberalization, including longer-term proposals such as the Brock initiative.

Presidential Involvement:

The President should reiterate U.S. commitment to maximum trade liberalization. As appropriate in Cabinet level discussions, the U.S. should explore mechanisms available to accomplish this.

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ASEAN FREE TRADE AREA

Drafted: EA/EP:LMoriartytm:dr
8/17/83:24835:0815z

Cleared: EA:ACAlbrechttm
EA:JMonjo
EA/EP:EJCheskytm
EA/IMBS:ALaPortatm
EA/PHL:RVDickeytm
EA/T:GWolfetm
EB/OT/GCP:MBarreratm

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GSP

ISSUE

ASEAN concern about U.S. Generalized System of Preferences (GSP) renewal legislation. (Note that the issue is also important to the Koreans.)

Where Do We Stand:

The Administration's proposal for GSP renewal has been introduced in Congress. It recommends extension of current benefits to most beneficiaries, but proposes reduction of competitive need limits on products from advanced beneficiaries and introduces the concept of U.S. access to beneficiary developing country markets as a consideration in determining competitive need limits. Initial hearings in the House and Senate have taken place; more are tentatively scheduled when Congress comes back into session. At the ASEAN Post-Ministerial Dialogue, in a formal memorandum, and on numerous other occasions, the ASEAN countries have requested that the U.S. expand coverage of its GSP program and have expressed concern that the Administration's legislative proposal may disadvantage Singapore. The Philippines has requested a waiver of the competitive need limits; a separate paper addresses this issue.

Where Do We Want To End Up:

With legislation which renews GSP for ten years with as few changes from the Administration's proposal as possible and which does not identify Singapore (or Israel) as one of the advanced beneficiaries to whom benefits would be reduced.

Steps To Take:

Continue to lobby hard for Congress to pass the proposed legislation as expeditiously as possible. Encourage companies and other private organizations who support GSP to make their views known to Congress. Keep the ASEAN governments fully informed of the progress of GSP renewal process and continuing Administration efforts to secure passage of the legislation.

Presidential Involvement:

In the unlikely event that new GSP legislation has been passed, the President should announce this to his ASEAN hosts and could take credit for the active Administration effort in securing passage. Since legislation will probably not yet have been passed, the President should repeat the Administration's commitment to renewal and be prepared to respond to ASEAN questions on the status of the legislation.

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ASIAN Issues for IG: GSP

EA/EP:LMoriarty:drjm

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Cleared:EA:ACAlbrechtjm

EA:JMonjojm

EA/EP:EJCheskyjm

EA/IMBS:ALaPortajm

EA/K:JHoagjm

EA/PHL:RVDickeyjm

EA/T:GWolfeyjm

EB/OT/GCP:BHirshornjm

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OTHER COOPERATIVE PROJECTS

ISSUE

To enhance existing exchange and support programs between the U.S. and ASEAN countries as a symbol of the increasing importance of that region to the U.S.

Where do we stand:

The U.S. has a modest level of exchange, cultural and other similar programs with the ASEAN countries under USIA, Fulbright Program, and activities of other agencies, public and private. The U.S. is also the chosen place for advanced academic and technical education by most ASEAN countries.

Where do we want to end up:

To be able to announce a substantial list of activities in these areas.

Steps to take:

To accelerate consideration of activities already in the pipeline and to review additional projects such as:

- tax administration (Treasury);
- regional narcotics projects (State/DEA);
- economic journalists program (USIA sponsorship of a second U.S. visit of ASEAN economic editors);
- visits and training of museum curators (USIA and Smithsonian);
- increased sports exchanges (coaches and teams) (USIA); and
- increased USG support of American scholars for study in the ASEAN region (USIA).

Presidential Involvement:

These activities are indicative of the growing community of interest between the U.S. and the ASEAN countries. Presidential emphasis should be given to the importance of fostering increased exchange between all elements of our societies and the maintaining of high levels of participation of advanced training of ASEAN students, officials and professionals in the U.S.

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OTHER COOPERATIVE PROJECTS

Drafted: EA/EP:ECesky: ^{SN}srp
Revised 8/17/83:x24835:0802z

Clearances: EA:AAlbrecht ¹
EA:JMonjo ^{ca}
USIA:AVaughn
Treasury:

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PRIVATE AMERICAN INVESTMENT IN ASEAN COUNTRIES

ISSUE

Encourage increased investment by American firms in ASEAN countries.

Where do we stand:

We see private sector investments in these countries as the most significant source of development capital for the ASEAN region and the best means of transferring needed American technology. American firms continue to invest substantially in ASEAN countries, for a total estimated to be in the neighborhood of \$10 billion. The investment climate remains good enough to attract the interest of American firms, but we continue to seek improvement. An OPIC investment mission will be visiting Indonesia later this year and other investment missions are contemplated.

Where do we want to end up:

With improved investment climates. This might be achieved by encouraging more liberal investment laws and/or by concluding tax and/or investment treaties with individual countries.

Steps to take:

Proceed with initiatives begun on tax treaties with Indonesia and Thailand. Seek positive statement from ASEAN governments supporting foreign investment. Identify outstanding investment issues in the ASEAN countries, seeking any that can be resolved prior to or during the President's visit. We should also encourage additional investment missions and explore the idea of a US-ASEAN investment forum.

Presidential Involvement:

The President should make a strong statement supporting increased investment in ASEAN countries by American firms, seen to reinforce our commitment to the region and meet the development needs of the countries themselves.

The President should reaffirm our policy on foreign investment (The USG investment policy statement should be released soon.)

The President may be able to announce a US-ASEAN investment forum (possibly a symposium in the U.S. sponsored jointly by the governments and ASEAN-US Business Council) encouraging U.S. investment in the region.

The President may be able to announce progress toward tax treaties with Indonesia and/or Thailand.

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ASEAN Issues for IG: Private American Investment In ASEAN

Drafted: EA/EP:BDPorter
~~8/10/83~~:x24835 (W 0425A)
9/10/83

Cleared: EA - Mr. Monjo ✓
EA - Mr. Albrecht ✓
EA/IMBS:ALaPorte ✓
EA/PHL:VDickey ✓
EA/T:GWolfe ✓
EA/EP:EChester ✓
EB/IFD/OIA:BAHanniff ✓
Commerce:KStauffer ✓

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SMALL BUSINESS PROJECT; TECHNOLOGY INSTITUTE

ISSUE

To develop a US/ASEAN Program which accelerates cooperation in the field of transfer of technology and American management and technical skills in support of the private sectors in these five nations.

Where Do We Stand:

An AID Project design team has gone out to ASEAN to make final preparation for a new \$2.7 million project in support of Small and Medium Business Improvement (SMBI) in the region. The project is in response to an ASEAN proposal for assistance in small and medium scale industry presented to the USG during 4th ASEAN/US Economic Dialogue.

A closely related idea, the formation of a US-ASEAN Technology Institute is now under discussion in the US and in ASEAN. A private sector Steering Committee made up of U.S. business and academic leaders is being formed under the initiative of the ASEAN/US Business Council (and the Chamber of Commerce of the USA).

Where Do We Want To End Up:

Ideally, we would like to be able to announce approval by AID of the Small and Medium Business Improvement Project, as well as to note advance preparation for the new Institute.

Steps To Take:

To accelerate the AID preparation process for the SMBI project; to refine the proposal and identify funding for a US/ASEAN Technology Institute in close cooperation with the U.S. Steering Committee and with ASEAN. Although significant U.S. private sector contributions are anticipated, USG funding will be required to get the Institute off the ground.

Presidential Involvement:

One or both of the listed proposals would possibly be appropriate for mention in the President's speeches in ASEAN, particularly in the appearance before the U.S. business community in Jakarta. A signing ceremony for the SMBI project might be an adjunct to the "ASEAN day" in Jakarta.

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SMALL BUSINESS PROJECT; TECHNOLOGY INSTITUTE

Drafted: EA/EP:EChesky:dr
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Clearances: EA:AAlbrecht *9/11*
EA:JMonjo *9/11*
EA/EP:HBardach *9/11*
AID/ASIA/ISPA:LKuhn *9/11*

TEXTILES

ISSUE

ASEAN desires to increase access to the U.S. textile market under bilateral textile agreements negotiated in accordance with the Multifiber Arrangement (MFA).

Where Do We Stand:

The U.S. has a bilateral textile agreement with each of the five ASEAN countries. Agreements with the Philippines, Singapore, and Thailand, the largest ASEAN suppliers, were renegotiated recently; Indonesia is a new supplier to the market. Our agreement with Malaysia will expire next year; Malaysia will want to ensure that a new agreement provides access to the U.S. market equal to that afforded other small suppliers. Although ASEAN countries have been assured that they would not be affected by the more stringent treatment aimed recently at reducing growth rates of major suppliers, they remain concerned that U.S. domestic textile industry pressures will force the U.S. to implement agreements in a manner inconsistent with our MFA commitments. At the ASEAN Post-Ministerial and in other fora, the ASEAN countries have protested the exclusion of textiles from our GSP program.

The U.S. textile and apparel industry argues that it is severely impacted by imports. President Reagan has committed this Administration to relating growth of imports to growth in the domestic industry. A White House Task Force is considering how to carry-out this commitment.

Where Do We Want To End Up:

In a position tell the ASEAN governments that they will continue to have fair access to the U.S. textile market in accordance with the MFA and our bilateral agreements.

Steps To Take:

Continue to implement our existing textile agreements in a manner consistent with our MFA obligations.

Ensure that the important concerns of our domestic textile industry are balanced by adequate consideration of U.S. economic and foreign policy objectives.

Include in the briefings for the President material on the political and economic importance of textiles to the ASEAN countries and other EA supplier countries in the region.

Presidential Involvement:

If the issue is raised by the ASEAN countries, the President should be prepared to tell the ASEAN governments that they will have equitable access to the U.S. textile market in accordance with the MFA and our bilateral agreements.

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ASEAN Issues for IG: Textiles

EA/EP:LMoriarty:dr

Revised 9/07/83:24835:0800z

Clearances:EA:ACAlbrecht *tm*

EA:JMonjo *tm*

EA/IMBS:JWinder *tm*

EA/T:GWolfe *tm*

EA/PHL:RVDickey *tm*

EA/EP:EJChesky *tm*

EB/TEX:MHenderson

COMMERCE:GSlijepcevic

LABOR:FJames *tm*

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TRADE ISSUES

ISSUE

For the trip and over the longer term, how can the U.S. supplement assurances of our commitment to free trade with tangible evidence?

Where Do We Stand:

In spite of some misgivings, at the GATT Ministerial the ASEAN countries were among the developing countries most supportive of the U.S. proposal for a North-South Round. The idea was not supported at Geneva, but was mentioned favorably in the Williamsburg Summit Communique. The idea represents the most constructive possibility for working on some of the tariff reductions the ASEAN countries would like us to consider.

In the interim, the reduction of semiconductor tariffs foreseen as a result of U.S.-Japan discussions will also benefit ASEAN countries which export to the U.S. Hardwood plywood was raised by President Suharto last year. A tariff cut would benefit several ASEAN countries, but the President does not now have authority to reduce tariffs, including the hardwood plywood tariff. (See separate Indonesia issue paper on plywood.) Under existing statutory authority, however, he could lower the sugar tariff to its legal minimum which would please Thailand and the Philippines, who have protested our sugar import program on numerous occasions. (Other possible positive actions on trade issues are proposed in the papers on GSP and the Brock initiative for an ASEAN Free Trade Area.)

Where Do We Want To End Up:

With support from the ASEAN countries for the North-South Round idea and, to the extent feasible, with some tangible evidence of the U.S. commitment to the reduction of trade barriers.

Steps To Take:

Use the Presidential visit to develop support for the North-South Round. Consider winning ASEAN support for a North-South Round by noting that in the course of a North-South Round the U.S. would consider tariff reductions on products of interest to ASEAN. Reduce the sugar tariff.

Presidential Involvement:

The ASEAN countries will expect the President to repeat his commitment to resisting protectionism and to support free trade. He should stress our belief that the North-South Round would offer a good forum for discussing tariff reductions of interest to ASEAN. If appropriate, he should point to the reduced sugar tariff.

CONFIDENTIAL

DECL:OADR

ASEAN Issues for IG: Tariff Reductions

EA/EP:LMoriarty:dr

Revised 9/08/83:x4835:0430A

Clearances:EA:ACAlbrecht^{jm}
EA:JMonjo^{jm}
EA/EP:EJChesky^{jm}
EA/IMBS:JWinder^{jm}
EA/PHL:RVDickey^{jm}
EA/T:GWolfe^{jm}
EB/OT/GCP:MBarrera^{jm}
USTR:CSuro-Bredie

INDONESIA: MERANTI PLYWOOD

ISSUE

How to respond to Indonesian concerns that "high" tariffs on meranti plywood inhibit Indonesian plywood exports to the United States.

Where Do We Stand:

Plywood exports are important to the economies of a number of Asian countries, including Indonesia, Malaysia, and the Philippines. However, the Indonesians would be most likely to raise the issue. In last year's meeting with President Reagan, Soeharto said that while Indonesia was doing its best to increase non-oil exports to the U.S., high tariffs had a negative effect on plywood shipments. In 1981, Indonesia (and in 1982 Malaysia) unsuccessfully petitioned for GSP treatment of meranti plywood, TSUS #240.17.

The U.S. tariff on meranti plywood is now 10 percent, and due to drop to 8 percent on January 1, 1984 as a result of accelerated staging of an MTN concession. Over the last two years, Indonesia's shipments of plywood have grown impressively from \$9.5 million in 1981 to \$40.7 million in 1982; mid-1983 shipments have already reached \$42.6 million.

Indonesia could address its concerns over U.S. plywood tariffs by asking for GSP treatment or requesting that the tariff be reduced or eliminated on an MFN basis. However, the GSP option is now unappealing because in 1983, Indonesian plywood shipments should exceed the GSP competitive need ceiling (\$53.3 million in 1982). Thus, adding meranti plywood to GSP would not benefit Indonesia, but would help its competitors.

Other than through GSP, the Administration has no authority to reduce or eliminate tariffs. Indonesia's second option is foreclosed unless the Administration receives tariff negotiating authority, or the Congress passes a special tariff suspension bill affecting plywood. Even if a tariff suspension bill could get through Congress, an MFN reduction or elimination of the plywood tariff would benefit all exporters of plywood, including the developed countries.

Where Do We Want to End Up:

In a position to deflect the issue should Indonesia raise it.

Steps to Take:

Prepare a contingency talking point stressing the demonstrated competitiveness of Indonesian meranti plywood, and the further reduction in the already low U.S. tariff on January 1.

Presidential Involvement:

None.

Clearances: EA:ACAlbrecht *fm*
EA:JMonjo
EA/EP:HBardach *fm*
EA/EP:EJChesky *fm*
EA/IMBS:JWinder *fm*
EA/IMBS:ALehn *fm*
EA/EP:LMoriarty *fm*
EB/OT/GCP:MChurchill *fm*
USTR:CSuro-Bredie (sub) *fm*